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Message Text

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PAGE 01 TEHRAN 07867 151118Z

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COMMERCE FOR DEPUTY ASSISTANT SECRETARY CHARLES HOSTLER

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SUBJ: WASHINGTON POSTSTORY ON IRAN INVESTMENT CLIMATE

REF: STATE 188335 (NOTAL)

1. IN EMBASSY VIEW, IRAN CONTINUES TO REPRESENT AN IMPORTANT OPPORTUNITY FOR AMERICAN BUSINESS TO COMPETE WITHIN A COMPLEX AND AT TIMES EXCEEDINGLY DIFFICULT BUSINESS CLIMATE FOR SUBSTANTIAL REWARDS. SUCCESS IN THE COMPETITION HAS NEVER BEEN GUARANTEED, PROBLEMS ABOUND, AND THE FALLOUT HAS BEEN AND WILL CONTINUE TO BE CONSIDERABLE. BUT THE LEVEL OF US SALES TO IRAN POINTS TO THE EXISTENCE OF A LARGE AND WORTHWHILE MARKET.

2. IT IS TRUE THAT RECENT DEVELOPMENTS IN IRAN--SPECIFICALLY THE
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PAGE 02 TEHRAN 07867 151118Z

NEW INDUSTRIAL SHARE DISTRIBUTION PROGRAM OF THE GOVERNMENT--HAVE

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

CREATED SOME APPREHENSION AND CONCERNAMONG A NUMBER OF FOREIGN FIRMS CONTEMPLATING JOINT VENTURES. A NUMBER HAVE, IN FACT, PULLED BACK FROM NEGOTIATIONS IN THE FACE OF WHAT THEY REGARDED AS A CHANGE IN THE GROUND RULES. HOWEVER, IT WOULD APPEAR THAT FEW, IF ANY, FIRMS IN AN ADVANCED STATE OF NEGOTIATIONS HAVE PACKED IT IN FOR GOOD.

3. THERE HAS ALSO BEEN BUDGET CUTTING, A REORDERING OF PRIORITIES, PROJECT DEFERRALS AND LATE PAYMENTS TO CONTRACTORS CAUSED BY A CASH FLOW SQUEEZE ENCOUNTERED BY SOME AGENCIES. THESE PROBLEMS IN TURN ARE INTIMATELY CONNECTED, IN CHICKEN-AND-THE-EGG FASHION, WITH TRANSPORTATION BOTTLENECKS, MANPOWER DEFICIENCIES AND MATERIAL SHORTAGES, AND WITH STRONG INFLATIONARY PRESSURES.

4. THE DAYS ARE GONE--IF THEY EVER REALLY EXISTED--WHEN IT SEEMED THAT ANY AND ALL PROPOSALS RELATING TO THE COUNTRY'S ECONOMIC DEVELOPMENT NEEDS COULD GET A HEARING AND EVEN WIN QUICK APPROVAL IN THE RUSH TO MEET THE EXPANDED GOALS OF THE $70 BILLION, FIVE-YEAR PLAN. EUPHORIA HAS BEEN REPLACED BY A SOBER REALIZATION THAT THE INFRASTRUCTURAL AND MANPOWER DIFFICULTIES HAVE BEEN UNDERESTIMATED, THAT THE TIME NEEDED TO MEET FIVE-YEAR PLAN GOALS MUST BE LENGTHENED, THAT BUDGETARY DISCIPLINE NEEDS TO BE REESTABLISHED, AND THAT SOME PLANS AND PROJECTS HAVE LOWER PRIORITIES THAN OTHERS AND MUST BE DEFERRED.

5. FOR THE US BUSINESSMAN THIS YEAR, IRAN CONTINUES TO REPRESENT BILLIONS OF DOLLARS IN POTENTIAL SALES OF AMERICAN PRODUCTS, SERVICES AND TECHNOLOGIES--BUT NONE OF THEM OF THE PUSH-BUTTON VARIETY IN THIS MARKET WHERE EACH BUSINESS DEAL MUST BE PATIENTLY AND KNOWINGLY EXPLORED AND CULTIVATED. IT ALSO REPRESENTS A WORTHWHILE AREA FOR US PRIVATE INVESTMENT, BUT ONE THAT IN MANY CASES IS SURPRISINGLY SOPHISTICATED IN ASSESSING COMPARATIVE ADVANTAGE AND ONE IN WHICH IT SHOULD BE UNDERSTOOD THAT A SERIOUS ATTEMPT IS UNDERWAY TO COUPLE SOCIAL AND INDUSTRIAL PROGRESS IN A MANNER INCOMPATIBLE TO NEITHER.

6. THE GOVERNMENT'S AVOWED AIM OF BROADENING THE BASE OF THE OWNERSHIP OF IRANIAN INDUSTRY SHOULD NOT NECESSARILY ALARM OR DETER THE PROSPECTIVE INVESTOR WHO HAS FOUND THE OTHER MAJOR BUSINESS FACTORS TO BEPOSITIVE. IN THE LONG RUN THE PROGRAM
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COULD BE A STABLIZING INFLUENCE, ADDING ADDITIONAL STRENGTH

TO THE ECONOMY AND INVESTMENT CLIMATE.

7. AS REGARDS PUBLICIZED OBJECTIVES OF THE US-IRAN JOINT COMMIS-SION, IT IS PATENTLY OBVIOUS THAT MANY OF THE SPECIFIC PROJECTS THAT WERE ENUMERATED HAVE LAGGED. HOWEVER, IT SHOULD BE NOTED THAT THE FIVE-YEAR, NON-OIL, TWO-WAY TRADE GOAL OF $15 BILLION

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APPEARS WELL WITHIN GRASP BASED UPON RECENTLY RELEASED US EXPORT STATISTICS LISTING US EXPORTS TO IRAN FOR THE FIRST SIX MONTHS OF 1975 AT $1.6 BILLION. NEARLY ALL OF THIS WAS IN NON-DEFENSE, RELATED PRODUCTS.

8. INEVITABLY, AMERICAN BUSINESSMEN COMING HERE, PARTICULARLY THOSE SEEKING CONTRACTS WITH THE GOI, WILL EXPERIENCE LONGER DELAYS IN GETTING DECISIONS FROM GOI OFFICIALS THAN IN THE RECENT PAST. ALL MINISTRIES HAVE BEEN ASKED TO REVISE THEIR SPENDING TARGETS DOWNWARD. UNTIL THIS REVIEW IS COMPLETED, FIRM COMMITMENTS CANNOT BE GIVEN. NONETHELESS, AND WITH THESE CAVEATS, WE BELIEVE THAT STATE AND COMMERCE SHOULD GENERALLY TAKE A POSITIVE LINE IN BRIEFING US BUSINESSMEN, ENCOURAGING THEM TO VISIT IRAN IN THOSE CASES WHERE THEY HAVE SERIOUS PROPOSALS TO PUT FORTH.

9. ALTHOUGH THE GROWTH IN IRANIAN PUBLIC AND PRIVATE BUSINESS ACTIVITY MAY INDEED HAVE SLOWED AND COULD SLOW FURTHER FROM WHAT HAS BEEN A RECORD PACE, IT SHOULD CONTINUE AT A HIGH LEVEL--A LEVEL FINANCED BY NOT SUBSTANTIALLY LOWER REVENUES THAN EARLIER ANTICIPATED. ACCORDINGLY, WE BELIEVE THAT IRAN REMAINS A MAJOR MARKET FOR AMERICAN BUSINESS AND ONE IN WHICH THERE IS STILL ROOM FOR GOOD, NEW-TO-MARKET COMPANIES.
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